

# **REPORT OF THE AUDITOR-GENERAL TO THE FREE STATE LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND PERFORMANCE INFORMATION OF THE NGWATHE LOCAL MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2008**

## **REPORT ON THE FINANCIAL STATEMENTS**

### **Introduction**

1. I was engaged to audit the accompanying financial statements of the Ngwathe Local Municipality which comprise the balance sheet as at 30 June 2008, income statement and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

### **Responsibility of the accounting officer for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act, 2007 (Act No. 1 of 2007) (DoRA). This responsibility includes:
  - designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error
  - selecting and applying appropriate accounting policies
  - making accounting estimates that are reasonable in the circumstances.

### **Responsibility of the Auditor-General**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126 of the MFMA, my responsibility is to express an opinion on these financial statements based on conducting the audit in accordance with the International Standards on Auditing and *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Because of the matters discussed in the Basis for disclaimer of opinion paragraphs, however, I was not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

### **Basis of accounting**

4. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

## Basis for disclaimer of opinion

### Creditors

5. As a result of the audit findings detailed below, I was unable to confirm or verify by alternative means the existence, completeness and valuation of creditors balances totalling R49 857 744 (2007: R10 643 886) presented in the balance sheet and disclosed in note 12 to the financial statements. I was consequently unable to confirm the completeness of expenditure for the year ended 30 June 2008. I could also not be provided with sufficient appropriate audit evidence to determine whether the said balances represented *bona fide* obligations to the municipality at 30 June 2008. My audit report on the financial statements for the year ended 30 June 2007, dated 27 May 2008, was modified accordingly.
- (a) Trade creditors totalling R1 116 361 at 30 June 2008 did not agree to the supporting creditor statements. The management of the Ngwathe Local Municipality was unable to provide a reasonable explanation for the difference of R852 074. Supplier statements could not be presented to support trade creditors with a balance of R3 453 745 (2007: R2 545 651). Management did not perform creditor reconciliations to support the balance of trade creditors at either the current or previous year-end.
- (b) In terms of section 65(2)(j) of the MFMA, the accounting officer must take all reasonable steps to ensure that all financial accounts of the municipality are closed at the end of each month and reconciled with its records. Furthermore, steps should be taken to ensure that suspense accounts are monitored on a monthly basis and are cleared at year-end. Contrary to the said prescript, suspense accounts totalling R4 304 809 (2007: (R7 535 828)) included in creditors as presented in the balance sheet were not cleared by management at year-end. Consequently, it was not possible to confirm the existence and rights and obligations of creditors as presented in the financial statements.
- (c) Included in trade creditors as presented in the balance sheet were accounts totalling R560 823 that reflected no movement for the current financial year. No supporting documentation could be provided by management to support the existence and valuation of these accounts or that the accounts represented *bona fide* obligations to the municipality.
- (d) The management of the Ngwathe Local Municipality did not provide me with sufficient appropriate audit evidence to support transactions totalling R206 946 (2007: R1 256 775) recorded in the creditors accounts. I was thus unable to confirm whether these transactions were accurately recorded or that they had, in fact, occurred. Consequently, I was also unable to confirm the existence and valuation of creditors amounting to R35 786 161 (2007: R9 649 599).
- (e) I could not be provided with supporting documentation to substantiate journals to the value of R30 921 552 recorded in the creditors control account at 30 June 2007. I was therefore unable to confirm the existence and valuation of trade creditors amounting to R14 449 039 included in the financial statements and disclosed in note 12.
- (f) Furthermore, I could not be provided with supporting documentation to substantiate journals to the value of R4 600 603 recorded in the sundry creditor accounts at 30 June 2007. I was therefore unable to confirm the existence and valuation of sundry creditors amounting to R2 736 388 included in the financial statements and disclosed in note 12.

### **Fixed assets**

6. As a result of the audit findings detailed below, I was unable to obtain sufficient appropriate audit evidence to conclude on the existence, completeness and valuation of net fixed assets in the sum of R7 484 178 (2007: R8 636 160) presented in the balance sheet and disclosed in note 6 to the financial statements. My audit report on the financial statements for the year ended 30 June 2007, dated 27 May 2008, was modified accordingly.
  - (a) The municipality did not maintain a fixed asset register, as required by section 63(2)(a) of the MFMA. Consequently, I was unable to perform all the audit procedures that I considered necessary to physically verify the existence, valuation and completeness of fixed assets or to confirm the ownership thereof. In the absence of a fixed asset register, there were no satisfactory alternate audit procedures that I could perform to obtain reasonable assurance regarding the fixed assets.
  - (b) Capital expenditure amounting to R3 228 945 incurred by the Fezile Dabi District Municipality on behalf of the Ngwathe Local Municipality was not recorded in the accounting records of the municipality.
  - (c) I could not be provided with appropriate documentation to support additions to fixed assets amounting to R21 142 972 during the previous financial year. The existence and valuation of these fixed asset additions could therefore not be confirmed. Furthermore, management did not provide documentation to support transactions amounting to R920 268 recorded in the fixed asset accounts during the year ended 30 June 2007. I was thus unable to confirm whether these transactions were accurately recorded or that they had, in fact, occurred.

### **Retained income**

7. The management of the Ngwathe Local Municipality did not provide sufficient appropriate audit evidence to support transactions with a value of R4 269 045 (2007: R83 819 096) which were recorded in the appropriation account. Furthermore, during the year ended 30 June 2007, journals, receipts and payments in the sum of R12 279 482 were incorrectly allocated to the appropriation account. Since the municipality's accounting records did not permit the application of reasonable alternative audit procedures, I was unable to obtain all the information and explanations I considered necessary to obtain reasonable assurance that the appropriation of R584 250 (2007: (R8 119 038)) presented in the income statement and disclosed in note 17 to the financial statements was accurate.

### **Cash and bank**

8. The management of the Ngwathe Local Municipality could not provide me with sufficient appropriate audit evidence in respect of a difference of R2 199 084 identified on the bank reconciliation. There were no satisfactory audit procedures that I could perform to obtain reasonable assurance that the bank overdraft of R9 520 261 presented in the balance sheet was carried at the appropriate amount.

### **Revenue**

9. A total of 1 123 meters in the municipal area have not been read for more than six months. Furthermore, a total of 9 706 meters do not have any interim averages recorded on which to

base estimated consumption. As a result, I was unable to obtain sufficient appropriate audit evidence as to the completeness of revenue from trading services in the sum of R104 761 215 presented in the income statement. The municipal systems and records did not permit me to perform reasonable alternative procedures.

10. I could not be provided with sufficient appropriate audit evidence to support the classification of revenue totalling R227 628 730, as presented in the income statement. The municipality's systems and records did not permit me to perform reasonable alternative procedures in this regard.
11. The management of the Ngwathe Local Municipality did not provide me with sufficient appropriate audit evidence to support transactions totalling R6 995 352 recorded in the revenue accounts. I was thus unable to confirm the occurrence, classification and accuracy of these transactions.
12. Erven sales amounting to R16 467 170 were inappropriately classified at 30 June 2007. These sales were erroneously allocated to revenue and not to the Erven Trust Fund as required by the accounting policy of the municipality. As a result, revenue for the year ended 30 June 2007 was overstated and trust funds at that date were understated by this amount. Furthermore, the Erven Trust Fund was understated by the above-mentioned amount at 30 June 2008 as result of the misallocation in the previous financial year.
13. Since no direct income registers were maintained by the municipality during the year ended 30 June 2007, the occurrence, accuracy and completeness of revenue amounting to R19 095 906 for the previous financial year could not be confirmed. Additionally, no documentation could be provided to support sundry receipts amounting to R3 114 140 for the year ended 30 June 2007.

#### **Irregular expenditure**

14. The municipality did not disclose the following irregular expenditure totalling R4 082 055 (2007: R1 788 988), as required by section 125(2)(d) of the MFMA:
  - (a) Contrary to the municipality's *Supply Chain Management Policy*, no competitive bidding process was followed in the appointment of certain consultants. The expenditure incurred during the year ended 30 June 2008 in this regard amounted to R966 197. Due to the fact that the expenditure was incurred contrary to the *Supply Chain Management Policy* and chapter 11 of the MFMA, the expenditure is considered to be irregular expenditure as defined in section 1 of the MFMA.
  - (b) Contrary to the municipality's *Supply Chain Management Policy*, adequate comparative quotations were not obtained in respect of expenditure transactions with a total value of R3 115 858 (2007: R1 788 988). Due to the fact that the expenditure was incurred contrary to the *Supply Chain Management Policy* and chapter 11 of the MFMA, the expenditure is considered to be irregular.

#### **Fruitless and wasteful expenditure**

15. The municipality did not disclose the following fruitless and wasteful expenditure totalling R1 639 409 (2007: R723 578), as required by section 125(2)(d) of the MFMA:

- (a) The municipality incurred fruitless and wasteful expenditure in the sum of R84 600 as a result of excessive expenditure in respect of funeral costs of certain municipal councillors.
- (b) Misuse of the municipality's garage card facilities during the year under review resulted in fruitless and wasteful expenditure in an estimated sum of R1 554 809.
- (c) During the previous financial year, the municipality incurred fruitless and wasteful expenditure in the sum of R650 803 as a result of interest and penalties levied by the South African Revenue Service on the late submission of VAT and PAYE returns.
- (d) Expenditure incurred for the inauguration of the mayor, interest payable to suppliers, and salaries paid to employees whose services had already been terminated totalled R72 775 during the year ended 30 June 2007. This expenditure was considered to be fruitless and wasteful expenditure as defined in section 1 of the MFMA.
16. The management of the Ngwathe Local Municipality could not provide me with sufficient appropriate audit evidence in respect of fruitless and wasteful expenditure amounting to R3 556 089, as disclosed in note 24.7 to the financial statements. I was therefore unable to confirm the occurrence and accuracy thereof.

#### Unauthorised expenditure

17. The municipality incurred unauthorised expenditure totalling R48 247 152 during the year under review due to overexpenditure on the votes as detailed in the table provided below.

I could not be provided with evidence that the expenditure was approved by the council in terms of section 29 of the MFMA as unforeseen and unavoidable expenditure. The unauthorised expenditure was not disclosed in the financial statements in accordance with section 125(2)(d) of the MFMA.

<b>Vote</b>	<b>Actual expenditure 2007-08</b>	<b>Budgeted expenditure 2007-08</b>	<b>Over- expenditure</b>
Museum	R 8 785	R 0	R 8 785
Health	R 684	R 0	R 684
Holiday resort	R 689	R 0	R 689
Executive and council	R 62 714 165	R 25 161 693	R 37 552 472
Water	R 24 292 309	R 18 201 088	R 6 091 221
Electricity	R 50 804 676	R 46 432 421	R 4 372 255
Housing	R 374 022	R 152 976	R 221 046
<b>Total expenditure</b>	<b>R 138 195 330</b>	<b>R 89 948 178</b>	<b>R 48 247 152</b>

## **Expenditure**

18. The management of the Ngwathe Local Municipality could not provide me with sufficient appropriate audit evidence for expenditure transactions amounting to R8 628 639 (2007: R12 692 595). I could also not be provided with sufficient appropriate audit evidence in respect of journals amounting to R834 183 (2007: R7 007 507). Due to the lack of supporting documentation, there were no satisfactory audit procedures that I could perform to obtain reasonable assurance as to the accuracy, classification or occurrence of these transactions.
19. During the previous financial year, payments amounting to R2 013 571 were not supported by valid goods received vouchers.
20. I could not be provided with sufficient appropriate audit evidence to support payments made to suppliers amounting to R388 511 prior to year-end and R1 057 942 (2007: R437 416) after year-end. I was thus unable to determine whether the payments had been recorded in the correct accounting period.
21. As a result of the audit findings detailed in paragraph 5 of this report, I was unable to confirm or verify by alternative means the occurrence and completeness of expenditure relating to corresponding creditors.

## **Value-added tax (VAT)**

22. VAT receivable amounting to R15 852 979 was included in debtors as presented in the balance sheet and note 10 to the financial statements, whilst VAT payable amounting to R14 071 583 was disclosed under creditors in the balance sheet and note 12 to the financial statements. Management should have offset the two balances in the financial statements. Had the balances been correctly classified, creditors would have amounted to R35 786 161 and debtors would have totalled R71 372 886 at 30 June 2008.
23. Included in the VAT receivable totalling R1 781 396, as presented in the balance sheet and disclosed in notes 10 and 12 to the financial statements, were a VAT payable and a VAT suspense account amounting to R994 287 and R311 192 (debit balance) respectively that reflected no movement for the current financial year. I could not be provided with sufficient appropriate audit evidence as to the existence, valuation and rights and obligations attached to the balances.
24. Input VAT amounting to R3 800 944 was not accounted for during the write-off of bad debts during the year ended 30 June 2008. The VAT receivable balance at year-end was therefore understated by the said amount.
25. The input VAT control account reflected a balance of R12 437 673, whilst input VAT according to the VAT 201 returns totalled R18 565 603. I could not be provided with sufficient appropriate audit evidence to support the difference of R6 127 930.
26. During the previous financial year, I could not be provided with supporting documentation to substantiate journals amounting to R12 374 480 recorded in the VAT accounts. I was thus unable to confirm whether these transactions were accurately recorded or that they had, in fact, occurred.
27. In the previous financial year, the VAT control accounts reflected a balance of R2 890 770, while the balance due to the South African Revenue Service as per the VAT 201 returns

amounted to R762 773. The VAT payable was thus overstated by R2 127 997 at 30 June 2007.

### **Debtors**

28. Included in the consumer debtors presented on the balance sheet and disclosed in note 10 to the financial statements were water and electricity consumption overcharges totalling R2 347 272. These overcharges were not rectified during the year by management. As a result, debtors at 30 June 2008 and revenue for the year then ended were overstated by the amount of the overcharge.
29. The management of the Ngwathe Local Municipality could not provide me with sufficient appropriate audit evidence and there were no satisfactory alternate audit procedures I could perform to obtain reasonable assurance as to the existence, valuation and rights attached to sundry debtors amounting to R3 121 960 at 30 June 2008 (2007: R16 272 084).
30. Suspense accounts totalling R19 924 884 were not cleared at year-end by management as required by section 65(2)(j) of the MFMA. I could not be provided with sufficient appropriate audit evidence to substantiate these balances and there were no satisfactory alternate audit procedures I could perform to obtain reasonable assurance as to the existence, valuation and rights attached to the suspense account balances.
31. During the previous financial year, I could not be provided with an appropriate debtors age analysis to support the existence and valuation of consumer debtors amounting to R91 972 635, before the provision for bad debts.
32. Journals amounting to R19 454 196 recorded in the debtors account in the previous financial year could not be supported by appropriate audit evidence. I was thus unable to confirm whether these transactions were accurately recorded or whether they had, in fact occurred. I was thus also unable to confirm the existence and valuation of consumer debtors amounting to R 91 972 635 at 30 June 2007. Furthermore, journals amounting to R141 612 recorded in the sundry debtor accounts could not be supported by appropriate audit evidence. As a result, I was unable to confirm whether the sundry debtors amounting to R1 802 597 at 30 June 2007 existed or were valued at appropriate amounts.
33. Sundry creditors amounting to R8 374 462 were incorrectly classified as debtors in the annual financial statements for the year ended 30 June 2007. This resulted in the debtors and creditors being understated by R8 374 462 at that date.

### **Conditional grants and receipts**

34. Conditional grants and receipts amounting to R82 833 000 (2007: R32 943 850) were not recognised in the income statement by the management of the Ngwathe Local Municipality. The income and expenditure for the year ended 30 June 2008 was thus understated by R82 833 000 (2007: R32 943 850).

### **Capital commitments**

35. The municipality did not maintain a contract register for the current and prior financial years, which provided particulars of all approved capital contracts, the expenditure incurred to date and the municipality's future capital commitment in respect of each contract. I was thus

unable to obtain sufficient appropriate audit evidence as to the completeness of the capital commitments in the sum of R14 630 405 (2007: R11 091 713) as disclosed in note 25 to the financial statements. The municipality's records and systems also did not permit me to perform reasonable alternative procedures in respect of the disclosure.

### **Contingent liabilities**

36. No supporting documentation was contained in the case files that served as the basis for contingent liabilities to the value of R1 688 144 as disclosed in note 26 to the financial statements. There were no satisfactory alternate audit procedures I could perform as to the valuation of the contingent liabilities. Similarly, in the previous financial year, I could not be provided with documentation to support the contingent liabilities disclosed in the financial statements.

### **Employee costs**

37. During the previous financial year, journal entries amounting to R2 761 327 were not supported by sufficient appropriate audit evidence. I was thus unable to confirm the accuracy and occurrence of these transactions processed to employee costs as disclosed in the comparative income statement.

### **Provisions**

38. The accumulated leave days, as determined by the SALGA Collective Agreement, were not adhered to during the previous financial year, resulting in the provision for leave pay at 30 June 2007 and employee costs for the year then ended being overstated by R1 036 088.

### **Disclaimer of opinion**

39. Because of the significance of the matters described in the Basis for disclaimer of opinion paragraphs, I have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the financial statements of the Ngwathe Local Municipality. Accordingly, I do not express an opinion on the financial statements.

### **Emphasis of matters**

I draw attention to the following matters:

### **Going concern**

40. The difficulties being experienced by the municipality in recovering all debts due to it as well as the potential negative effect of this tendency on the cash flows of the municipality, indicate that there is a risk that the municipality may be exposed to serious financial problems, which may require provincial or national intervention arising from financial crisis as set out in terms of sections 139 and 150 of the MFMA.



### Restatement of corresponding figures

41. The following material differences exist between the comparative amounts as per the financial statements for the year ended 30 June 2008 and those amounts presented in the published annual financial statements for the year ended 30 June 2007. The differences resulted from the restatement of the corresponding figures, as disclosed in note 24.8 to the financial statements.

Account balance	Comparative figures	2007 Published financial statements	Difference
<b>Balance sheet</b>			
(Retained income) / Accumulated deficit	R41 197 254	R38 262 758	R2 934 496
Debtors	R49 949 388	R52 743 320	(R2 793 932)
Provisions	(R8 457 714)	(R8 407 715)	(R49 999)
Creditors	(R10 643 886)	(R10 553 270)	(R90 616)
<b>Income statement</b>			
Other expenses	R43 739 188	R42 286 942	R1 452 246
Contributions to fixed assets	R19 976 509	R19 841 509	R135 000
Audit adjustment	R1 347 250	R0	R1 347 250

### OTHER MATTERS

I draw attention to the following matters that are ancillary to my responsibilities in the audit of the financial statements:

#### Internal controls

42. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the inefficiencies in the system of internal control, which led to the disclaimer of opinion. The root causes are categorised according to the five components of an effective system of internal control. In some instances deficiencies exist in more than one internal control component.

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
Creditors	X		X	X	
Fixed assets	X		X		
Retained income			X		
Cash and bank					X
Revenue			X		
Irregular expenditure			X		X
Fruitless and wasteful expenditure			X		X
Unauthorised expenditure			X		X
Expenditure			X		
Value-added tax (VAT)			X		
Debtors	X		X		X
Conditional grants and receipts			X		
Capital commitments			X		
Contingent liabilities			X		
Employee costs			X		
Provisions			X		

Control environment: establishes the foundation for the internal control system by providing fundamental discipline and structure for financial reporting.

Risk assessment: involves the identification and analysis by management of relevant financial reporting risks to achieve predetermined financial reporting objectives.

Control activities: policies, procedures and practices that ensure that management's financial reporting objectives are achieved and financial reporting risk mitigation strategies are carried out.

Information and communication: supports all other control components by communicating control responsibilities for financial reporting to employees and by providing financial reporting information

Reporting item	Control environment	Risk assessment	Control activities	Information and communication	Monitoring
in a form and time frame that allow people to carry out their financial reporting duties.					
<u>Monitoring</u> : covers external oversight of internal controls over financial reporting by management or other parties outside the process; or the application of independent methodologies, like customised procedures or standard checklists, by employees within a process.					

## Non-compliance with applicable legislation

### Municipal Finance Management Act, 2003 (Act No. 56 of 2003)

43. Section 65(2)(e) of the MFMA requires that all money owing by the municipality be paid within 30 days of receiving the relevant invoice or statement. Contrary to this requirement, a number of incidents were identified where outstanding accounts were not paid within the prescribed time frame.
44. The bank overdraft was not approved as required by section 45(2) and (3) of the MFMA. Furthermore, although the bank overdraft (short-term debt) was not repaid within the financial year as required by section 45(4) of the MFMA, the National Treasury was not notified of the net overdrawn position as required by section 70(2) of the Act.
45. Section 32(4) of the MFMA requires that the accounting officer must promptly inform the mayor, the MEC for local government in the province and the Auditor-General, in writing, of any unauthorised, irregular or fruitless and wasteful expenditure incurred by the municipality. Contrary to the said prescript, the required reports were not issued by the municipality during the year under review, while instances of irregular and fruitless and wasteful expenditure were identified and disclosed in the financial statements.
46. The annual budget compiled by the municipality did not comply with the requirements as prescribed in section 17 of the MFMA.
47. The following reports were not submitted in the time frame as required by the MFMA:
  - Quarterly reports were not submitted within the time frame as required by section 52(d) of the Act.
  - The draft service delivery, budget implementation and annual performance agreements were not submitted within the time frame as required by section 69(3) of the Act.
48. No evidence could be obtained that the mayor promptly responded to and initiated any corrective steps to deal with the cash flow problems or that the mayor alerted council and the MEC responsible for local government to ensure that the requirements of section 54(2) of the MFMA were adhered to.
49. In terms of section 131 of the MFMA, a municipality must address any issues raised by the Auditor-General in an audit report. The mayor of a municipality must ensure compliance by the municipality. Matters noted in my audit report for the year ended 30 June 2007, dated 27 May 2008, had not yet been resolved by management. As a result, the mayor and management of the Ngwathe Local Municipality did not fulfil their responsibility in terms of section 131 of the MFMA.

50. Section 32(2) of the MFMA requires the municipality to investigate all unauthorised, irregular and fruitless and wasteful expenditure and to recover such expenditure incurred from the persons responsible. Contrary to this requirement, the management of the Ngwathe Local Municipality did not investigate identified instances of unauthorised, irregular and fruitless and wasteful expenditure.
51. Not all alleged theft and fraud were reported by the municipality to the South African Police Service as required by section 32(6) of the MFMA.

#### **Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)**

52. Section 67(d) of the MSA requires that appropriate systems must be developed to monitor, measure and evaluate the performance of staff. Although the performance of management is monitored, the performance of other employees is not monitored and evaluated.
53. According to section 11(3)(a) of the MSA, regulations, plans and policies should be established, approved and implemented by the municipality to govern the different processes and activities of the municipality. Notwithstanding, it was noted that the municipality has not established or implemented formally documented and approved policy frameworks for the financial transactions and events related to several important business processes.

#### **Matters of governance**

54. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

<b>Matter of governance</b>	<b>Yes</b>	<b>No</b>
<b>Audit committee</b>		
▪ The municipality had an audit committee in operation throughout the financial year. (Ex. 36)		X
▪ The audit committee operates in accordance with approved written terms of reference. (Ex. 36)		X
▪ The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA. (Ex. 36)		X
<b>Internal audit</b>		
▪ The municipality had an internal audit function in operation throughout the financial year	X	
▪ The internal audit function operates in terms of an approved internal audit plan.		X
▪ The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X

Matter of governance	Yes	No
<b>Other matters of governance</b>		
▪ The annual financial statements were submitted for audit as per the legislated deadlines, as set out in section 126 of the MFMA.	X	
▪ The annual report was submitted to the auditor for consideration prior to the date of the auditor's report.		X
▪ The financial statements submitted for audit were not subject to any material amendments resulting from the audit.		X
▪ No significant difficulties were experienced during the audit concerning delays or the unavailability of expected information and/or the unavailability of senior management.		X
▪ The prior year's external audit recommendations have been substantially implemented.		X
▪ The Provincial SCOPA resolutions have been substantially implemented. (Ex. 183, Ex. 184 & Ex. 192)		X

#### Unaudited supplementary schedules

55. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these appendices and accordingly I do not express an opinion thereon.

#### OTHER REPORTING RESPONSIBILITIES

##### REPORT ON PERFORMANCE INFORMATION

56. I have reviewed the performance information as set out on pages xx to xx.

##### Responsibility of the accounting officer for the performance information

57. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

##### Responsibility of the Auditor-General

58. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.

59. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related

systems, processes and procedures. The procedures selected depend on the auditor's judgement.

60. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the audit findings reported below.

## **Audit findings**

### **Non-compliance with regulatory requirements**

#### **Content of integrated development plan (IDP) and strategic plan**

61. The integrated development plan of the Ngwathe Local Municipality did not include key performance indicators and performance targets determined in terms of its performance management system, as required by section 26(i) of the MSA.
62. Although the required performance indicators and targets formed part of the strategic plan, it did not form part of the IDP and this was never presented to the local community for their inputs.
63. The IDP did not contain a financial plan or budget projection for the next 3 years as required by section 26(h) of the MSA.
64. The key performance indicators set by the Ngwathe Local Municipality did not include any general key performance indicators applicable to the municipality, as prescribed in terms of section 43(1) of the MSA and regulation 10 of the Municipal Planning and Performance Management Regulations, 2001 (GNR. 796)

#### **Existence and functioning of a performance audit committee**

65. The Ngwathe Local Municipality did not appoint and budget for a performance audit committee, nor was another audit committee utilised as the performance audit committee.

#### **Internal auditing of performance measurements**

66. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes, as required in terms of section 45 of the MSA.

#### **Measurable objectives not consistent**

67. Furthermore, I draw attention to the fact that material inconsistencies also exist between:
  - Measurable objectives per IDP / Strategic Plan
  - Measurable objectives per budget
  - Measurable objectives per annual performance report

### **Lack of sufficient appropriate audit evidence**

68. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Ngwathe Local Municipality, as I was unable to obtain access to original source documentation pertaining to the performance information.

### **Lack of systems generating performance information**

69. I was unable to obtain sufficient appropriate audit evidence in relation to the performance information of the Ngwathe Local Municipality, as the system used for generating information on the targets was not adequate for purposes of evaluation.

### **APPRECIATION**

70. The assistance rendered by the staff of the Ngwathe Local Municipality during the audit is sincerely appreciated.

*Auditor-General*  
Bloemfontein

31 January 2009



A U D I T O R - G E N E R A L